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HR outsourcing

COMPANIES of all sizes and industries are outsourcing parts of their HR business processes in record numbers to effect improvements in efficiency, service and cost. Vendors are driving this shift away from the traditional HR service delivery model with promises of increased access to better technology and systems, at a reduced cost, in conjunction with improved levels of quality and service to the customer.

Between the dynamic challenges employers face and the intense competitive pressures in the vendor community, it would appear that HR outsourcing (HRO) has, in fact, evolved to give employers more choice and an increasingly flexible, creative and comprehensive menu of services.

This article explores some of the reasons behind the transformation of the HRO industry. It then provides information to help HR business leaders make informed choices regarding HRO options as a means to reap professional experience in relation to HRO and strategic value for their organizations.

The HRO market is in transition. Until recently, the market followed a relatively predictable path, with the majority of HR outsourcing engagements conforming to conventional transaction-focused, single-process business arrangements with individual third-party providers (e.g., payroll services, health care and pension plan administrators, temporary staffing agencies, etc.).

However, it is now clear that the HRO market has achieved a degree of maturity on the business life-cycle continuum.

A second-generation market has emerged, the HRO multi-process market. As the HRO vendors have begun to partner with and acquire other firms, they are broadening their service capabilities to include organizational and people development, employee data management, workforce planning and deployment, and human capital services. In fact, a 2004 market research study by a well-known Business Process Outsourcing (BPO) analyst firm forecasted that the worldwide market for multi-process HR BPO would grow at the rate of 21% annually, reaching $7 billion by 2008. This forecast is highly significant because this same study forecasted that the total HR outsourcing market would grow by just 11% to $33 billion worldwide by 2008. In other words, in terms of projected growth, the multi-process component of the HRO market is now appreciably more robust than the market for those organizations electing to outsource the HR function in its entirety.

WHAT IS OUTSOURCING?

In a nutshell, outsourcing is an accepted management tool for restructuring and refocusing the way an organization does business. It challenges management to build a more flexible organization centered on the core competencies of the business. In making the determination that a business has more to gain by having certain "non-core" aspects of the business outsourced to a third-party service provider, the organization transfers responsibility for one or more activities or functions that would normally be performed in-house to a qualified vendor, for a specified period of time and at a negotiated fee, in accordance with terms stipulated in a service level agreement (SLA). In essence, the organization is making a decision to send certain parts of the business out to a provider whose "core competency" is that part of the business.

TYPES OF OUTSOURCING

In the past, HR outsourcing was thought of as hiring a vendor to provide a service. With the new focus on outsourcing, there is more of an opportunity to partner with the vendor to provide the service on a longer term basis rather than just a one-time vendor contract.

HR outsourcing can include:

i Discrete services: In this instance, one element of a business process or a single set of high-volume repetitive functions is outsourced to a third-party administrator. Examples of discrete services could include the annual open enrollment process, flexible spending accounts or employee background checks.

ii Multi-process services: The complete outsourcing of one or more functional human resource processes would be an example of multi-process outsourcing (also called blended services). As such, the outsourcing of either health and welfare benefits administration or defined retirement plan and 401(k) plan administration to a third-party administrator would be an example of multi-process or blended services outsourcing.

iii Total HR Outsourcing: Total HR outsourcing represents the transfer of the majority of HR services to a third party, to include recruitment, payroll, HRIS, benefits, compensation and communications, as well as the transition of HR management and staff. However, HR executive management would normally remain in place within the organization, along with strategic planning related to people management and other key HR functions at the discretion of management.

WHY OUTSOURCE HR

According to a recent study on HRO in government organizations, while HR outsourcing in the public sector is significantly less common than in the private sector, the rationale for outsourcing is essentially the same. Three basic financial drivers behind HRO are noted:

To save money (ongoing expenditures).

To avoid capital outlay (often a more important consideration than direct cost savings).

To turn a fixed cost into a variable one (i.e., if the workforce shrinks, HR costs can be reduced accordingly).

HR TRANSFORMATION-REFOCUSING PRIORITIES

According to Gill Rider, "adding value is going to be critical in the next phase of HRO. The first wave of HRO engagements was really all about achieving cost savings. And while cost savings will always be a critical driver for HRO adoption, productivity will gain in importance. HRO, in the second wave, will increasingly be viewed as a strategic tool for achieving high performance. HRO is, after all, a proven, reliable, affordable means to achieving productivity gains."

So, HRO is not just about cost savings. HRO is, in many ways, forcing a change in how HR does business by making HR business leaders refocus on what is important to the organization. For those organizations serious about getting out from under the yoke of transaction-based HR processing and reaping strategic value from the HRO process, repositioning HR within the organization through multi-process or second-generation HRO means that:

* The diversity and quality of HR services will be enhanced.
* HR staff can now have more time to focus on core business functions.
* HR staff can utilize internal resources more effectively and efficiently.

FUTURE PROSPECTS FOR HR

HRO is the fastest growing segment of the BPO industry. Some experts argue that within the next five years, HRO companies will employ half of all HR professionals. In the broader context, BPO is the delegation of one or more IT-intensive business processes to an external provider that, in turn, owns, administers and manages a selected process or set of related processes, based on defined and measurable performance metrics. Currently, the most frequently outsourced processes in order of priority are: IT development, customer service, HR/payroll processes, IT support, transaction management, travel expense reimbursement, tax consulting, financial reporting and general accounting.

THE HRO PROCESS

Any organization making a significant commitment to HRO is making a decision with far-reaching implications--not just for HR, but for the entire organization. For this reason, it is crucial that all stakeholders involved in the HRO process be involved from the outset and that there is clarity in relation to the goals and objectives that the organization expects to achieve. As a starting point, a multi-departmental steering team, consisting of representatives of all potential users of the service provider, should be formed and convened. Ideally, HR will either lead the decision-making process or be crucial to it. Other key members of the steering team should include high-level managers and executives with a vested interest in all aspects of human capital asset management and its return on investment, including operations, information systems technology, finance, accounting and logistics. The goals and expectations of the outsourcing process should be developed and defined in a detailed project plan.

•Leslie A.Weatherly,HR Magazine

Top 6 Outsourcing Advantages

IT is very important to evaluate the different components of an organization before outsourcing decisions are made. When done for the right reasons, outsourcing will actually help the organization grow and save money. There are other advantages of outsourcing that go beyond money. Here are the six top advantages of outsourcing.

1. Focus On Core Activities

In rapid growth periods, the back-office operations of an organization will expand also. This expansion may start to consume resources (human and financial) at the expense of the core activities that have made the organization successful. Outsourcing those activities will allow refocusing on those business activities that are important without sacrificing quality or service in the back-office.

2. Reduced Overhead Cost and Efficiency Savings

Back-office functions that are complicated in nature, but the size of the organization prevents the performance of it at a consistent and reasonable cost, is another advantage of outsourcing.

3. Operational Control

Operations whose costs are running out of control must be considered for outsourcing. Departments that may have evolved over time into uncontrolled and poorly managed areas are prime motivators for outsourcing. In addition, an outsourcing vendor can bring better management skills to the organization than what would otherwise be available.

4. Staffing Flexibility

Outsourcing will allow operations that have seasonal or cyclical demands to bring in additional resources when needed and released when not needed.

5. Continuity & Risk Management

Periods of high employee turnover will add uncertainty and inconsistency to the operations. Outsourcing will provide a level of continuity to the organization while reducing the risk that a substandard level of operation would bring.

6. Develop Internal Staff

A large project needs to be undertaken that requires skills that your staff does not possess. On-site outsourcing of the project will bring people with the skills needed into the organization.

Recruitment process outsourcing (RPO)

OUTSOURCING is a term that is being used more frequently as increasing numbers of organizations are exploring this as a potential delivery option for some of their activities. It can be defined as 'the delegation of one or more business processes to an external provider, who then owns, manages and administers the selected processes based on defined and measurable performance matrices.'

The specific processes that a included within any outsourcing arrangement will vary from organization to organization. Some organizations may outsource virtually all of their HR processes where others select specific components such as Payroll or Resourcing.

WHAT IS RECRUITMENT OUTSOURCING?

Often referred to as Recruitment Process Outsourcing (RPO), Recruitment Outsourcing is a growing and evolving trend as increasing numbers of employers are exploring this model as a potential delivery option for some or all of their resourcing activities.

Recruitment Outsourcing can be defined as 'the transfer of operational responsibility for one or more recruiting functions, including recruitment administration, to a recruiting services provider'. It is essentially a form of business process outsourcing, where an organisation outsources or transfers all or parts of the staffing recruitment process to an external provider.

Organisations use recruitment outsourcing services in many ways, including for specific projects, for particular types of hiring or in particular regions. They may use one provider or divide their business between several specialists. Services may be delivered by big on-site teams, no one on site or a halfway house. Deals can start and finish at different points - some companies get their provider involved in resource planning and drawing up job specifications, while others start with sourcing candidates.

In large organisations, it is common to outsource the operational elements of delivering resourcing activities whilst retaining control over talent planning, assessment approach, hiring decisions, resourcing strategy and employer branding. Outsourcing of the resourcing function can also take place following a restructure or a merger between two companies.

Effective resourcing is equally important in small organisations. Outsourcing recruitment can be an attractive proposition for small businesses, giving them access to expertise, market knowledge and better agency rates.

Outsourced arrangements are likely to evolve over the lifetime of the deal or as contracts are renewed and renegotiated. Sometimes employers take part of a service back in-house or extend it to include more elements of hiring, or extra services such as induction of a new recruit or handling exit interviews.

SOME BENEFITS OF RPO

When organizations put forward a business case for outsourcing recruitment there are a number of potential benefits. In practice, these benefits are not necessarily mutually exclusive to an outsourced arrangement and a number of them could also be achieved via alternative solutions.

Commonly mentioned benefits include:

- Reduced resourcing and attrition costs.
- Improved direct sourcing capability, reducing agency reliance by building better candidate databases.
- Access to resourcing expertise not available internally, leading to increased efficiency and greater value.
- Access to improved and expensive HR IT systems providing more accurate and sophisticated human capital metrics and management information to demonstrate the impact of resourcing on the business.
- Talent acquisition and retention support, growth in candidate global mobility.
- Ability to differentiate between attraction strategies which improve candidate experience and, in turn, promote stronger employer brands.
- Improved quality of service to the business - a more professional and consistent resourcing service.
- Greater speed to fill vacancies and respond to business demands.
- Managing risk.
- Free up HR/resourcing professionals to concentrate on more strategic resourcing activities, such as workplace planning.
- Adding value beyond recruitment and selection - 'onboarding', performance and retention with the aim of augmenting capability.

Note that RPO is part of an overall strategy as there are likely to be other areas that outsourcing is being deployed, for example, in the HR or other support functions, of which resourcing is just one part.

POTENTIAL CHALLENGES OF RPO

From a practical point of view, there are also a number of potential pitfalls that are useful to bear in mind when considering outsourcing recruitment. Some of the main ones are:

♦ Don't outsource what you don't understand. The provider will only have to subsequently solve the problem (probably at a cost) and the provider's solution might not be the most suitable one for your organisation. You will be unable to advise the outsource provider of details of your resourcing plans and aims, if you don't understand them in the first place, and a provider without this knowledge may in this instance adopt a one-size fits all approach.

♦ Collaborating with procurement and the business to ensure the RPO deal is more than cost-led. For example, driving too hard a bargain can destroy any value that you are likely to achieve from the outsourcing arrangement.

♦ Outsourcing recruitment does not absolve the organisation of good people management practices, nor of overall responsibility for the provision of effective resourcing services.

♦ Increasingly, outsourced arrangements are often long term (five year contracts are not unusual). An understanding of the organisation's current and future business strategy and potential changing business profile (and hence risk), by the outsourcing provider is essential before entering into any contractual arrangement. This helps prevent being tied into unfavourable contractual arrangements.

♦ Make sure the provider understands the employer brand is vital to attracting and recruiting the right talent. Not only will poor relationships with providers destroy value, it will also damage the employer brand.

♦ Failing to handle outsourcing properly can lead to loss of local knowledge and processes which will instead reside with the provider.

♦ Standardisation of recruitment processes in line with the provider rather than organisational preferences when for example, it may have been cheaper and a better fit to use the organisation's resourcing model.

♦ Fragmentation of the resourcing service provided can lead to day to day operations being separated from resourcing strategy and policy direction.

♦ The need to constantly monitor and review the success of the outsourced recruitment arrangement against specified key performance indicators.

♦ In a rapidly changing business environment, resourcing needs are likely to change within the term of the outsourcing contract. Dealing with change requires appropriate action to continue to deliver effective resourcing solutions. For example, when recruitment volumes drop, the outsourced deal can become more expensive.

GETTING THE MOST FROM AN OUTSOURCED RELATIONSHIP

The relationship between the organisation and the outsource provider is crucial to achieving the identified business benefits. The emphasis on developing strong relationships and successful partnership arrangements applies across the board with any third party suppliers. In an article in the most recent People Management supplement on recruitment process outsourcing, Andrew Goldschmidt quotes the following top tips on getting the most from your outsourced relationship:

1 Check the prospective provider's credentials to ensure proven success and experience in recruitment outsourcing - effective sourcing that attracts and recruits top-tier talent needs to be a core competency, not a secondary skill.

2 Make sure the provider's technology is user-friendly and seek centralised accountability from outsourced partners.

3 Actively govern the relationship - have a clear governance structure that raises accountability to the top of the organisation and work together with your chosen provider to look at trends, measure business impact and seek progressive levels of performance.

4 Focus on metrics that demonstrate the tangible impact on the business, such as increased revenue and productivity, not just cost-per-hire and time-to-fill.

5 Take a holistic approach - seek transformational relationships in which outsourced providers are sufficiently equipped to view and manage the talent lifecycle in a holistic way.

6 Ensure recruiting efforts match your company culture - there should be alignment between the organisation's and the provider's culture. Providers should be able to articulate and embody the organisation's culture well enough to ensure positive and strong candidate experience.

Recruitment outsourcing is a journey, not a destination. Most successful outsourced arrangements today have moved beyond the tactical level to a strategic level to identify recruitment indicators that help companies make proactive, rather than reactive. resourcing decisions.

CIPD viewpoint

Despite the recent fall in employers' recruitment intentions, organisations are under even greater pressure now to get recruitment right - to ensure that where a recruitment need exists, talented individuals possessing the right skills, knowledge and attitudes are brought on board and can deliver high levels of organisational performance.

Outsourcing the recruitment process is one way for organisations to gain access to resourcing expertise and, in the current economic climate, it will give them the ability to flex up and down accordingly to meet resourcing demand.

With increasing demand being placed upon HR/resourcing functions to reduce costs and deliver greater levels of efficiency at the same time as raising the level of HR/resourcing activity to focus on delivering a 'strategic', 'value adding' service, organisations are starting to explore alternative resourcing models such as

an outsourced arrangement to help them meet changing organisational needs.

Frequently Outsourced HR Functions

* Assessment testing.
* Background checks.
* Compensation and/or incentive plan administration.
* Employee assistance counselling.
* Employee communication plans/ strategies.
* Employee counselling.
* Executive development and coaching.
* Expatriate administration.
* Flexible spending account administration.
* Health and welfare benefits administration.
* Human resource information systems (HRIS) development.
* Outplacement services.
* Payroll administration.
* Performance management.
* Policy development and/or implementation.
* Recruiting/staffing of employees (non-executives).
* Recruiting/staffing of executives only.
* Retirement benefits administration.
* Retirement planning.
* Relocation services.
* Risk management.
* Temporary staffing.
* Training and development programmes.
* Strategic business planning.
* Work/life balance benefits administration.

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